

Town of Wellesley Contributory Retirement System

*Actuarial Valuation and Review
as of January 1, 2006*

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August 21, 2006

*Retirement Board
Town of Wellesley Contributory Retirement System
Town Hall
525 Washington Street
Wellesley, MA 02482*

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of January 1, 2006. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2007 and later and analyzes the preceding two years' experience.

The census information and financial information on which our calculations were based was prepared by the staff of the Wellesley Retirement System. That assistance is gratefully acknowledged. The actuarial calculations were completed under my supervision.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

THE SEGAL COMPANY

*By: _____
Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary*

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SECTION 1

VALUATION SUMMARY

Purpose	i
Significant Issues in Valuation Year.....	i
Summary of Key Valuation Results.....	iii

SECTION 2

VALUATION RESULTS

A. Participant Data.....	1
B. Financial Information.....	4
C. Actuarial Experience.....	6
D. Recommended Contribution .	11
E. Information Required by the GASB.....	12

SECTION 3

SUPPLEMENTAL INFORMATION

EXHIBIT A Table of Plan Coverage	13
EXHIBIT B Participants in Active Service as of December 31, 2005	14
EXHIBIT C Summary Statement of Income and Expenses.....	15
EXHIBIT D Development of the Fund Through December 31, 2005.....	16
EXHIBIT E Development of Unfunded/(Overfunded) Actuarial Accrued Liability.....	17
EXHIBIT F Funding Schedule	18
EXHIBIT G Group Results as of January 1, 2006	19
EXHIBIT H Department Results as of January 1, 2006	20
EXHIBIT I Definitions of Pension Terms	21

SECTION 4

REPORTING INFORMATION

EXHIBIT I Summary of Actuarial Valuation Results	23
EXHIBIT II Supplementary Information Required by the GASB – Schedule of Employer Contributions	24
EXHIBIT III Supplementary Information Required by the GASB – Schedule of Funding Progress	25
EXHIBIT IV Supplementary Information Required by the GASB	26
EXHIBIT V Supplementary Information Required by the GASB – Department Results	27
EXHIBIT VI Actuarial Assumptions and Actuarial Cost Method	28
EXHIBIT VII Summary of Plan Provisions.....	32

SECTION 1: Valuation Summary for the Town of Wellesley Contributory Retirement System

Purpose

This report has been prepared by The Segal Company to present a valuation of the Town of Wellesley Contributory Retirement System as of January 1, 2006. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of M.G.L. Chapter 32;
- The characteristics of covered active participants, inactive participants, and retired participants and beneficiaries as of January 1, 2006;
- The assets of the Plan as of December 31, 2005;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

- The actuarial valuation report as of January 1, 2006 is based on financial information as of that date. Changes in the value of assets subsequent to that date are not reflected.
- During the plan years ended 2004 and 2005, the market value rate of return was 11.89% and 6.88%, respectively, resulting in an investment gain on a market value basis of \$4,248,214.
- As of January 1, 2004, the System was overfunded by \$3,946,206. The overfunded liability was \$3,925,275 as of January 1, 2006 due to an experience loss and changes in assumptions discussed below.
- This valuation reflects the additional liability due to the increased benefits for veterans who retire on an accidental disability retirement allowance.
- The following actuarial assumptions were changed with this valuation:
 - The investment return assumption was raised from 7.50% to 8.00%.
 - The administrative expense assumption was increased from \$150,000 for calendar 2004 to \$175,000 for calendar 2006.

SECTION 1: Valuation Summary for the Town of Wellesley Contributory Retirement System

- A liability for a deferred retirement allowance has been calculated for inactive vested members with a reported final average salary.
- We have assumed that 40% of members who retire on accidental disability will die from the same cause as the disability.
- We have assumed that 55% of Group 1 deaths and 90% of Group 4 deaths are accidental.
- In 2004, the Public Employee Retirement Administration Commission approved a new mortality table and interest rate to be used in the calculation of the optional form of payment factors. This valuation reflects the change to the new factors.
- Changing these assumptions resulted in net decrease in the liability of \$3,286,040 and a decrease in the employer normal cost of \$38,986.
- As the funding schedule of Exhibit F of Section 3 shows, the overfunding can be used to offset the employer normal cost through fiscal 2009. An appropriation of \$1.3 million is projected for fiscal 2010 and \$1.6 million for fiscal 2011.

SECTION 1: Valuation Summary for the Town of Wellesley Contributory Retirement System

Summary of Key Valuation Results

	January 1, 2006	January 1, 2004
Contributions:		
Recommended for 2007 and 2005	\$0	\$0
Recommended for 2008 and 2006	0	0
Funding elements for plan year beginning January 1:		
Normal cost, including administrative expenses	\$3,617,752	\$3,217,756
Market value of assets	127,011,492	116,792,365
Actuarial value of assets	127,011,492	116,792,365
Actuarial accrued liability	123,086,217	112,846,159
Unfunded/(overfunded) actuarial accrued liability	-3,925,275	-3,946,206
GASB 25/27 for fiscal year beginning July 1:		
Annual required contributions	\$0	\$0
Actual contributions	0	0
Percentage contributed	N/A	N/A
Funded ratio	103.19%	103.50%
Demographic data for plan year beginning January 1:		
Number of retired participants and beneficiaries	415	414
Number of inactive participants entitled to a return of their employee contributions	129	163
Number of inactive participants with a vested right to a deferred or immediate benefit	15	N/A
Number of active participants	636	595
Total payroll*	\$25,429,578	\$23,172,848
Average payroll*	39,984	38,946

* For the 2006 valuation, payroll shown is for calendar 2005. For the 2004 valuation, payroll shown is for calendar 2004.

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

A. PARTICIPANT DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered participants, including active participants, inactive participants, retired participants and beneficiaries.

This section presents a summary of significant statistical data on these participant groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A and B.

A historical perspective of how the participant population has changed over the past three valuations can be seen in this chart.

CHART 1

Participant Population: 2002 – 2005

Year Ended December 31	Active Participants	Inactive Participants	Retired Participants and Beneficiaries
2002	600	179	419
2003	595	163	414
2005	636	144	415

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

Active Participants

Plan costs are affected by the age, years of service and payroll of active participants. In this year's valuation, there were 636 active participants with an average age of 45.0, average years of service of 9.4 years and average payroll of \$39,984. The 595 active participants in the prior valuation had an average payroll of \$38,946.

Among the active participants, there were none with unknown age and/or service information.

Inactive Participants

In this year's valuation, there were 15 participants with a vested right to a deferred or immediate vested benefit and 129 participants entitled to a return of their employee contributions.

These graphs show a distribution of active participants by age and by years of service.

CHART 2

Distribution of Active Participants by Age as of December 31, 2005

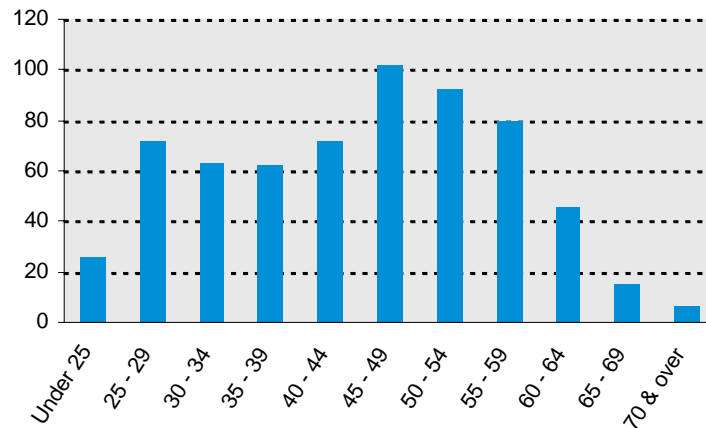
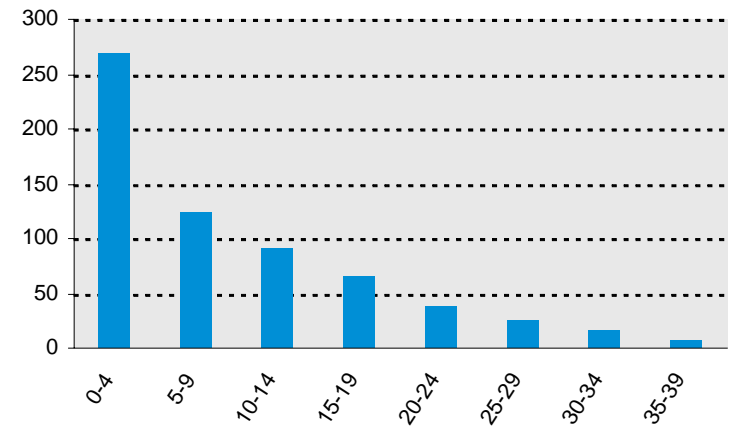


CHART 3

Distribution of Active Participants by Years of Service as of December 31, 2005



SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

Retired Participants and Beneficiaries

As of December 31, 2005, 344 retired participants and 71 beneficiaries were receiving total monthly benefits of \$653,391. For comparison, in the previous valuation, there were 344 retired participants and 70 beneficiaries receiving monthly benefits of \$612,906.

These graphs show a distribution of the current retired participants and beneficiaries based on their monthly amount and age, by type of pension.

CHART 4

Distribution of Retired Participants and Beneficiaries by Type and by Monthly Amount as of December 31, 2005

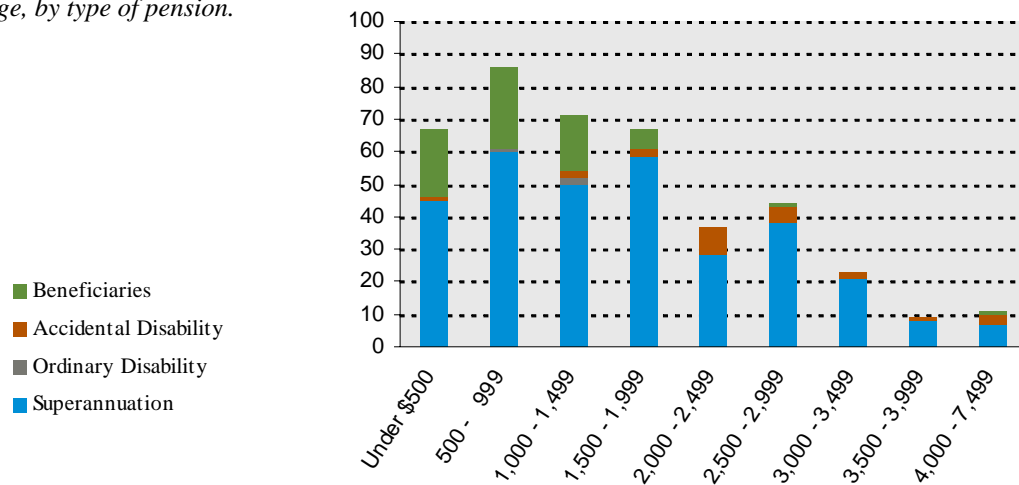
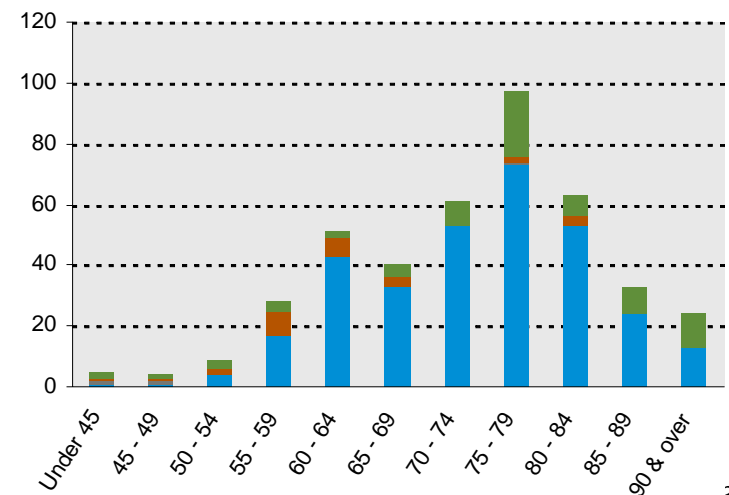


CHART 5

Distribution of Retired Participants and Beneficiaries by Type and by Age as of December 31, 2005



SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

B. FINANCIAL INFORMATION

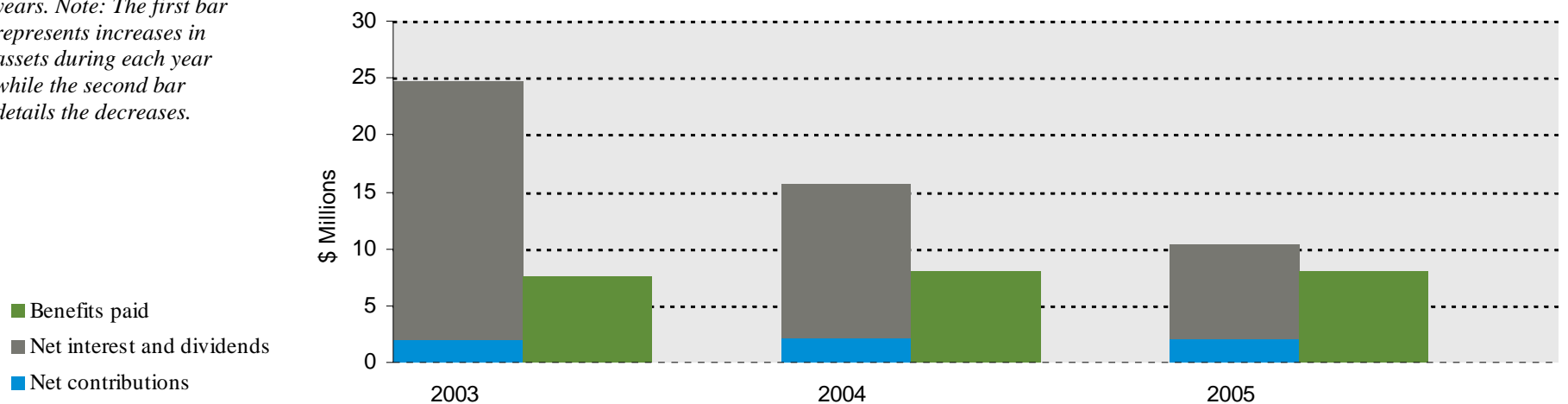
Retirement plan funding anticipates that, over the long term, both net contributions (less administrative expenses) and net investment earnings (less investment fees) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. Additional financial information, including a summary of these transactions for the valuation year, is presented in Section 3, Exhibits C and D.

The chart depicts the components of changes in the actuarial value of assets over the last three years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6

Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended December 31, 2003 – 2005



SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

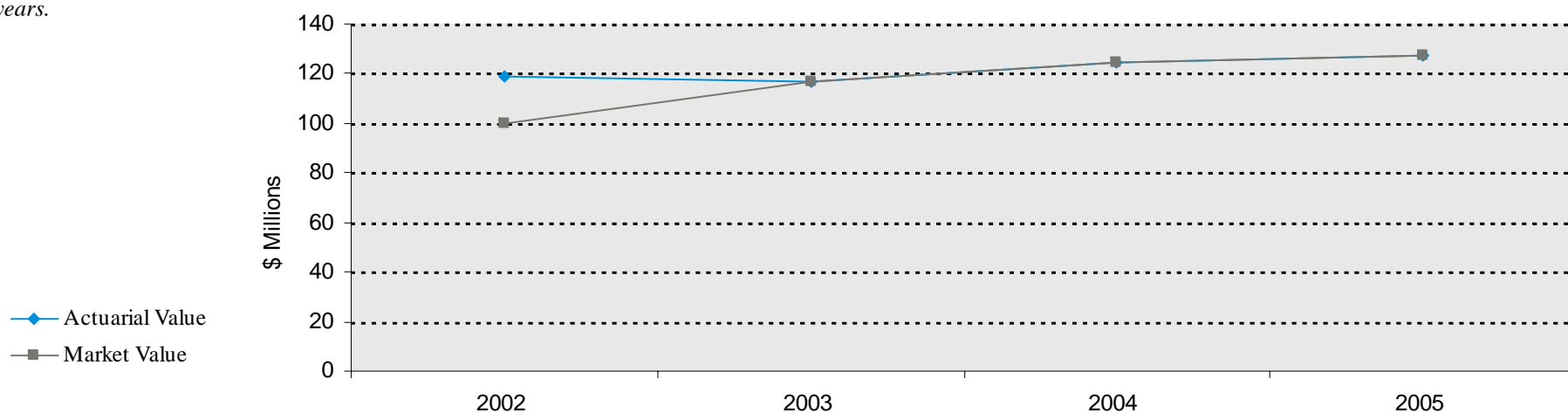
The actuarial value of assets was reset to market value on December 31, 2003. The Board has elected to continue using market value to determine the System's unfunded/(overfunded) actuarial accrued liability and funding schedule.

The actuarial asset value is significant because the Wellesley Retirement System's liabilities are compared to these assets to determine what portion, if any, remains unfunded/(overfunded). Amortization of any unfunded actuarial accrued liability is an important element in determining the contribution requirement.

This chart shows the actuarial value of assets versus the market value of assets over the past four years.

CHART 7

Actuarial Value of Assets vs. Market Value of Assets as of December 31, 2002 – 2005



SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term

development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

When compared to the actuarial accrued liability of \$123,086,217 as of December 31, 2005, the net experience variation was not significant. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience over the past two years.

CHART 8

Actuarial Experience for Two-Year Period Ended December 31, 2005

1. Net gain from investments*	\$4,248,214
2. Net gain from administrative expenses	122,736
3. Net loss from other experience	<u>-5,672,163</u>
4. Net experience loss: (1) + (2) + (3)	<u>-\$1,301,213</u>

* Details in Chart 9

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Wellesley Retirement System's investment policy. The assumed rate of return on the actuarial value of assets for 2004 and 2005 was 7.50%. The actual rate of return on an actuarial basis for the 2005 plan year was 6.88% and 11.89% for the 2004 year.

Over the two-year period ending December 31, 2005, the Wellesley Retirement System experienced an actuarial gain with regard to its investments.

This chart shows the gain/(loss) due to investment experience.

CHART 9 Actuarial Value Investment Experience

	Year Ended	
	December 31, 2005	December 31, 2004
1. Actual return	\$8,365,528	\$13,546,176
2. Average value of assets	121,606,546	113,906,658
3. Actual rate of return: (1) ÷ (2)	6.88%	11.89%
4. Assumed rate of return	7.50%	7.50%
5. Expected return: (2) x (4)	\$9,120,491	\$8,542,999
6. Actuarial gain/(loss): (1) – (5)	<u>-\$754,963</u>	<u>\$5,003,177</u>

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis for the last three years, including an average return on that period.

Based upon this experience and future expectations, we have changed the assumed rate of return to 8.00%.

CHART 10

Investment Return – Actuarial Value of Assets (equal to Market Value of Assets): 2003 - 2005

Year Ended December 31	Actuarial Value Investment Return	
	Amount	Percent
2003	\$22,732,561	23.47%
2004	13,546,176	11.89
2005	<u>8,365,527</u>	6.88
Total	\$44,644,264	
	Three-year average return	13.43%

Note: Each year's yield is weighted by the average asset value in that year.

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

The market returns for the last three years are shown in the chart below.

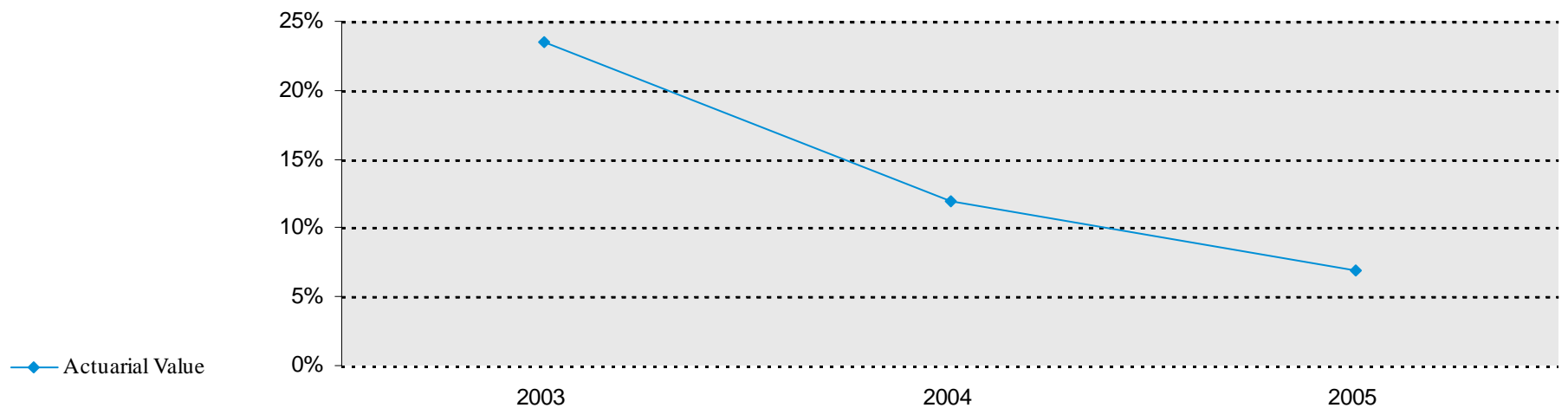
Administrative Expenses

Administrative expenses for the years ended December 31, 2004 and 2005 were \$92,127 and \$100,450, respectively, compared to the assumption of \$150,000 per year. This resulted in a gain of \$122,736 for the two-year period, including an adjustment for interest. Based on budgeted expenses, we have increased the assumption to \$175,000 for calendar 2006.

This chart illustrates the rates of return.

CHART 11

Actuarial Rates of Return (equal to Market Value Rates of Return) for Years Ended December 31, 2003 - 2005



SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net loss from this other experience for the two-year period ended December 31, 2005 amounted to \$5,672,163 which is 4.6% of the actuarial accrued liability.

With this valuation we recommend the following assumption changes:

- The investment return assumption was increased from 7.50% to 8.00%.
- The administrative expense assumption was increased from \$150,000 for calendar 2004 to \$175,000 for calendar 2006.
- A liability for a deferred retirement allowance has been calculated for inactive vested members with a reported final average salary.
- We have assumed that 40% of members who retire on accidental disability will die from the same cause as the disability.
- We have assumed that 55% of Group 1 deaths and 90% of Group 4 deaths are accidental.
- In 2004, the Public Employee Retirement Administration Commission approved a new mortality table and interest rate to be used in the calculation of the optional form of payment factors. This valuation reflects the change to the new factors.

Changing these assumptions resulted in a net decrease in the actuarial accrued liability of \$3,286,040 and a decrease in the employer normal cost of \$38,986.

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

D. RECOMMENDED CONTRIBUTION

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded/(overfunded) actuarial accrued liability.

The actuarial accrued liability includes \$60,730 for the additional liability due to the increased benefit for veterans who retire on an accidental disability retirement allowance.

The overfunding can be used to offset the employer normal cost through fiscal 2009. An appropriation of \$1.3 million is projected for fiscal 2010 and \$1.6 million for fiscal 2011. Exhibit F in Section 3 shows the projected contribution through 2028.

The chart compares this valuation's recommended contribution with the prior valuation.

CHART 12 Recommended Contribution

	Year Beginning January 1			
	2006		2004	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$3,442,752	13.04%	\$3,067,756	13.24%
2. Administrative expenses	175,000	0.66%	150,000	0.65%
3. Expected employee contributions	<u>-2,312,688</u>	<u>-8.76%</u>	<u>-1,881,232</u>	<u>-8.12%</u>
4. Employer normal cost: (1) + (2) + (3)	\$1,305,064	4.94%	\$1,336,524	5.77%
5. Actuarial accrued liability	123,086,217		112,846,159	
6. Actuarial value of assets	<u>127,011,492</u>		<u>116,792,365</u>	
7. Unfunded/(overfunded) actuarial accrued liability: (5) - (6)	-\$3,925,275		-\$3,946,206	
8. Employer normal cost projected to July 1, 2006 and 2004	1,334,105	4.94%	1,366,265	5.77%
9. Projected unfunded/(overfunded) actuarial accrued liability	-4,079,265		-4,091,513	
10. Payment on projected unfunded/(overfunded) actuarial accrued liability	-1,334,105	-4.94%	-1,366,265	-5.77%
11. Recommended contribution: (8) + (10)*	<u>0</u>	0.00%	<u>0</u>	0.00%
12. Projected payroll	\$26,979,544		\$23,688,500	

**Recommended contributions are assumed to be paid at the beginning of every fiscal year.*

SECTION 2: Valuation Results for the Town of Wellesley Contributory Retirement System

E. INFORMATION REQUIRED BY THE GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements.

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the

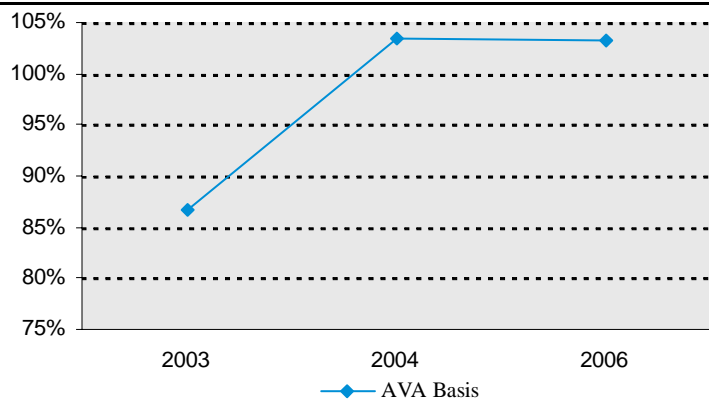
actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

Chart 13 shows the funded ratio calculated using the actuarial value of assets.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, IV and V.

This graph shows key GASB factors.

CHART 13
Funded Ratio



SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT A

Table of Plan Coverage

	Year Ended December 31		Change From Prior Year
Category	2005	2003	
Active participants in valuation:			
Number	636	595	6.9%
Average age	45.0	44.8	N/A
Average service	9.4	9.3	N/A
Total payroll*	\$25,429,578	\$23,172,848	9.7%
Average payroll*	39,984	38,946	2.7%
Account balances	19,702,480	N/A	N/A
Inactive participants with a vested right to a deferred or immediate benefit	15	N/A	N/A
Inactive participants entitled to a return of their contributions	129	163	N/A
Retired participants:			
Number in pay status	315	318	-0.9%
Average age	73.8	73.22	N/A
Average monthly benefit	\$1,646	\$1,575	4.5%
Disabled participants:			
Number in pay status	29	26	11.5%
Average age	61.4	62.5	N/A
Average monthly benefit	\$2,400	\$2,196	9.3%
Beneficiaries in pay status	71	70	1.4%

** For the 2006 valuation, payroll shown is for calendar 2005. For the 2004 valuation, payroll shown is for calendar 2004.*

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT B

**Participants in Active Service as of December 31, 2005
By Age, Years of Service, and Average Payroll**

Age	Years of Service								
	Total	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39
Under 25	26	25	1	--	--	--	--	--	--
	\$21,920	\$21,055	\$43,531	--	--	--	--	--	--
25 – 29	72	65	7	--	--	--	--	--	--
	\$29,998	\$28,313	\$45,644	--	--	--	--	--	--
30 – 34	63	39	21	3	--	--	--	--	--
	\$42,136	\$34,977	\$51,671	\$68,456	--	--	--	--	--
35 – 39	62	26	15	10	11	--	--	--	--
	\$42,930	\$33,356	\$49,126	\$53,095	\$47,868	--	--	--	--
40 – 44	72	25	12	19	12	4	--	--	--
	\$40,042	\$25,783	\$40,857	\$48,232	\$54,491	\$44,458	--	--	--
45 – 49	102	28	19	16	17	13	7	2	--
	\$46,261	\$28,870	\$47,008	\$47,524	\$56,023	\$60,530	\$59,685	\$49,819	--
50 – 54	92	32	15	12	8	10	9	6	--
	\$46,521	\$35,311	\$31,460	\$54,343	\$51,283	\$49,983	\$72,187	\$77,700	--
55 – 59	80	16	20	16	7	5	4	7	5
	\$40,632	\$28,719	\$30,507	\$41,747	\$43,305	\$68,415	\$41,591	\$61,652	\$53,957
60 – 64	46	9	9	12	7	3	3	1	2
	\$34,991	\$26,293	\$30,077	\$33,687	\$35,730	\$44,546	\$42,009	\$53,549	\$67,354
65 – 69	15	4	3	1	2	3	2	--	--
	\$33,146	\$18,203	\$45,757	\$32,668	\$21,974	\$40,063	\$45,154	--	--
70 & over	6	1	1	1	2	--	1	--	--
	\$24,114	\$16,076	\$6,715	\$25,042	\$30,834	--	\$35,182	--	--
Total	636	270	123	90	66	38	26	16	7
	\$39,984	\$29,504	\$41,180	\$46,613	\$48,515	\$54,222	\$57,129	\$65,684	\$57,785

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT C

Summary Statement of Income and Expenses

	Year Ended December 31, 2005	Year Ended December 31, 2004
Contribution income:		
Employer contributions	\$0	\$0
Employee contributions	2,159,914	2,206,622
Other contributions	36,251	45,743
Less administrative expenses	<u>-100,450</u>	<u>-92,127</u>
Net contribution income	\$2,095,715	\$2,160,238
Net investment income	<u>8,365,527</u>	<u>13,546,176</u>
Total income available for benefits	\$10,461,242	\$15,706,414
Less benefit payments:		
Pensions	-\$6,724,493	-\$6,590,929
Net 3(8)(c) reimbursements	-28,619	-6,513
Refunds, annuities, and Option B refunds	-1,373,974	-1,334,210
State reimbursements	<u>110,209</u>	<u>0</u>
Net benefit payments	-\$8,016,877	-\$7,931,652
Change in reserve for future benefits	\$2,444,365	\$7,774,762

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT D

Development of the Fund Through December 31, 2005

Year Ended December 31	Employer Contributions	Employee Contributions	Other Contributions	Net Investment Return*	Administrative Expenses	Benefit Payments	Actuarial Value of Assets at End of Year
2003	\$0	\$2,023,601	\$33,946	\$22,732,561	\$87,022	\$7,532,091	\$116,792,365
2004	0	2,206,622	45,743	13,546,176	92,127	7,931,652	124,567,127
2005	0	2,159,914	36,251	8,365,527	100,450	8,016,877	127,011,492

** Net of investment expenses*

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT E

Development of Unfunded/(Overfunded) Actuarial Accrued Liability

	Year Ended	
	December 31, 2005	December 31, 2004
1. Unfunded/(overfunded) actuarial accrued liability at beginning of year	-\$3,111,863	-\$3,946,206
2. Normal cost at beginning of year	3,362,555	3,217,756
3. Total contributions	-2,196,165	-2,252,365
4. Interest		
(a) For whole year on (1) + (2)	\$18,802	-\$54,634
(b) For half year on (3)	<u>-74,508</u>	<u>-76,414</u>
(c) Total interest	<u>-55,706</u>	<u>-131,048</u>
5. Expected unfunded/(overfunded) actuarial accrued liability	-\$2,001,179	-\$3,111,863
6. Changes due to:		
(a) Investment gain	-\$4,248,214	--
(b) Veterans' allowance for accidental disability retirees	60,730	--
(c) Valuing deferred retirement allowance for inactive vesteds	1,095,564	--
(d) Other assumptions	-4,381,604	--
(e) Miscellaneous loss	<u>5,549,428</u>	--
(f) Total changes	<u>-1,924,096</u>	--
7. Unfunded/(overfunded) actuarial accrued liability at end of year	<u>-\$3,925,275</u>	--

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT F

Funding Schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Portion of Overfunded Liability Used to Offset Normal Cost	(4) Total Plan Cost: (2) + (3)	(5) Total Unfunded/ (Overfunded) Actuarial Accrued Liability at Beginning of Fiscal Year
2007	\$1,334,105	\$(1,334,105)	\$0	\$(4,079,265)
2008	1,394,140	(1,394,140)	0	(2,964,773)
2009	1,456,876	(1,456,876)	0	(1,696,284)
2010	1,522,435	(258,561)	\$1,263,874	(258,561)
2011	1,590,945	0	1,590,945	0
2012	1,662,538	0	1,662,538	0
2013	1,737,352	0	1,737,352	0
2014	1,815,533	0	1,815,533	0
2015	1,897,232	0	1,897,232	0
2016	1,982,607	0	1,982,607	0
2017	2,071,824	0	2,071,824	0
2018	2,165,056	0	2,165,056	0
2019	2,262,484	0	2,262,484	0
2020	2,364,296	0	2,364,296	0
2021	2,470,689	0	2,470,689	0
2022	2,581,870	0	2,581,870	0
2023	2,698,054	0	2,698,054	0
2024	2,819,466	0	2,819,466	0
2025	2,946,342	0	2,946,342	0
2026	3,078,927	0	3,078,927	0
2027	3,217,479	0	3,217,479	0
2028	3,362,266	0	3,362,266	0

Note: Recommended contributions are assumed to be paid on July 1.

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT G

Group Results as of January 1, 2006

Category	Group 1	Percent of Pay	Group 4	Percent of Pay	Total	Percent of Pay
1) Participant counts						
a) Active employees	519		117		636	
b) Inactive members entitled to a return of their employee contributions	127		2		129	
c) Inactive members with a vested right to a deferred or immediate benefit	12		3		15	
d) Retired members	<u>283</u>		<u>132</u>		<u>415</u>	
e) Total members: (a) + (b) + (c) + (d)	941		254		1,195	
2) Projected payroll	\$19,277,215		\$7,115,038		\$26,392,253	
3) Normal cost						
a) Total normal cost	2,362,213	12.25%	1,080,539	15.19%	3,442,752	13.04%
b) Employee contributions	-1,690,611	-8.77%	-622,077	-8.74%	-2,312,688	-8.76%
c) Expense allowance	<u>120,075</u>	<u>0.63%</u>	<u>54,925</u>	<u>0.77%</u>	<u>175,000</u>	<u>0.66%</u>
d) Employer normal cost: (a) + (b) + (c)	\$791,677	4.11%	\$513,387	7.22%	\$1,305,064	4.94%
4) Total actuarial accrued liability	69,725,477		53,360,740		123,086,217	
5) Actuarial value of assets	<u>71,949,054</u>		<u>55,062,438</u>		<u>127,011,492</u>	
6) Unfunded/(overfunded) actuarial accrued liability: (4) - (5)	-2,223,577		-1,701,698		-3,925,275	

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT H

Department Results as of January 1, 2006

Category	Housing	Water	Light	All Other	Total
1) Participant counts					
a) Active employees	5	26	35	570	636
b) Inactive members entitled to a return of their employee contributions	0	1	0	128	129
c) Inactive members with a vested right to a deferred or immediate benefit	0	0	2	13	15
d) Retired members	4	13	31	367	415
e) Total members: (a) + (b) + (c) + (d)	9	40	68	1,078	1,195
2) Projected payroll	\$188,273	\$1,214,998	\$2,018,703	\$22,970,279	\$26,392,253
3) Normal cost					
a) Total normal cost	20,772	112,176	325,249	2,984,555	3,442,752
b) Employee contributions	-16,871	-102,230	-175,779	-2,017,808	-2,312,688
c) Expense allowance	<u>1,056</u>	<u>5,702</u>	<u>16,533</u>	<u>151,709</u>	<u>175,000</u>
d) Employer normal cost: (a) + (b) + (c)	\$4,957	\$15,648	\$166,003	\$1,118,456	\$1,305,064
4) Total actuarial accrued liability	753,146	4,463,430	11,569,300	106,300,341	123,086,217
5) Actuarial value of assets	<u>777,164</u>	<u>4,605,771</u>	<u>11,938,250</u>	<u>109,690,307</u>	<u>127,011,492</u>
6) Unfunded/(overfunded) actuarial accrued liability: (5) - (6)	-24,018	-142,341	-368,950	-3,389,966	-3,925,275
7) Payment on projected unfunded/(overfunded) actuarial accrued liability	-4,957	-15,648	-166,003	-1,118,456	-1,305,064
8) Recommended contribution for fiscal 2007: (3d) + (7)	0	0	0	0	0

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

EXHIBIT I

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or actuarial assumptions:

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal cost:

The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial accrued liability for actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial accrued liability for pensioners:

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded actuarial accrued liability:

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

SECTION 3: Supplemental Information for the Town of Wellesley Contributory Retirement System

**Amortization of the unfunded
actuarial accrued liability:**

Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

Investment return:

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT I

Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:

1. Retired participants as of the valuation date (including 71 beneficiaries in pay status)	415
2. Participants active during the year ended December 31, 2005 with total accumulated contributions of \$19,702,480 and projected payroll of \$26,392,253	636
3. Inactive participants with a right to a return of their employee contributions as of December 31, 2005	129
4. Inactive participants with a vested right to a deferred or immediate benefit as of December 31, 2005	15

The actuarial factors as of the valuation date are as follows:

1. Normal cost, including administrative expenses	\$3,617,752
2. Expected employee contributions	-2,312,688
3. Employer normal cost: (1) + (2)	\$1,305,064
4. Actuarial accrued liability	123,086,217
Retired participants and beneficiaries	\$67,467,176
Active participants	53,532,629
Inactive participants	2,086,412
5. Actuarial value of assets (\$127,011,492 at market value)	127,011,492
6. Unfunded/(overfunded) actuarial accrued liability: (4) – (5)	-3,925,275

The actuarial factors projected to July 1, 2006 are as follows:

1. Employer normal cost projected to July 1, 2006	\$1,334,105
2. Projected unfunded/(overfunded) actuarial accrued liability	-4,079,265
3. Payment on projected unfunded/(overfunded) actuarial accrued liability	-1,334,105
4. Total recommended contribution: (1) + (3)	<u>\$0</u>
5. Projected payroll	\$26,979,544

Notes: Recommended contributions are assumed to be paid at the beginning of every fiscal year.

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended December 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2003	\$0	\$0	N/A
2004	0	0	N/A
2005	0	0	N/A
2006	0	0	N/A

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT III

Supplementary Information Required by the GASB – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
01/01/1995	\$62,744,371	\$62,680,623	-\$63,748	100.10%	\$16,138,898	-0.39%
01/01/1997	78,665,972	69,141,005	-9,524,967	113.78%	17,800,326	-53.51%
01/01/1999	106,295,893	81,975,372	-24,320,521	129.67%	17,694,603	-137.45%
01/01/2001	123,291,025	92,278,891	-31,012,134	133.61%	21,561,329	-143.83%
01/01/2003	119,033,662	114,811,026	-4,222,636	103.68%	22,572,703	-18.71%
01/01/2004	116,792,365	112,846,159	-3,946,206	103.50%	23,172,848	-17.03%
01/01/2006	127,011,492	123,086,217	-3,925,275	103.19%	26,392,253	-14.87%

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	January 1, 2006
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Plan is currently fully funded
Remaining amortization period	Plan is currently fully funded
Asset valuation method	Market value

Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.00%
Cost of living adjustments	3.00% of first \$12,000 of retirement income

Plan membership:	
Retired participants and beneficiaries receiving benefits	415
Terminated participants entitled to a return of their employee contributions	129
Terminated participants with a vested right to a deferred or immediate benefit	15
Active participants	<u>636</u>
Total	1,195

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT V

Supplementary Information Required by the GASB – Department Results

	Housing	Water	Light	All Other	Total
1. Total actuarial accrued liability	\$753,146	\$4,463,430	\$11,569,300	\$106,300,341	\$123,086,217
2. Actuarial value of assets	<u>777,164</u>	<u>4,605,771</u>	<u>11,938,250</u>	<u>109,690,307</u>	<u>127,011,492</u>
3. Unfunded/(overfunded) actuarial accrued liability (UAAL): (1) - (2)	-24,018	-142,341	-368,950	-3,389,966	-3,925,275
4. Funded ratio: (2) / (1)	103.2%	103.2%	103.2%	103.2%	103.2%
5. Payroll	\$188,273	\$1,214,998	\$2,018,703	\$22,970,279	\$26,392,253
6. UAAL as a percentage of covered payroll: [(1) – (2)] / (5)	-12.8%	-11.7%	-18.3%	-14.8%	-14.9%

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT VI

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

<i>Healthy:</i>	RP-2000 Healthy Annuitant Mortality Table
<i>Disabled:</i>	RP-2000 Healthy Annuitant Mortality Table set forward 2 years

Termination Rates before Retirement:

Groups 1 and 2 - Rate (%)

Age	Mortality		Disability
	Male	Female	
20	0.03	0.02	0.01
25	0.04	0.02	0.02
30	0.04	0.03	0.03
35	0.08	0.05	0.06
40	0.11	0.07	0.10
45	0.15	0.11	0.15
50	0.21	0.17	0.19
55	0.36	0.27	0.24
60	0.67	0.51	0.28

*Notes: 55% of the disability rates shown represent accidental disability.
40% of the accidental disabilities will die from the same cause as the disability.
55% of the death rates shown represent accidental death.*

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

Group 4 - Rate (%)			
Age	Mortality		Disability
	Male	Female	
20	0.03	0.02	0.10
25	0.04	0.02	0.20
30	0.04	0.03	0.30
35	0.08	0.05	0.30
40	0.11	0.07	0.30
45	0.15	0.11	1.00
50	0.21	0.17	1.25
55	0.36	0.27	1.20
60	0.67	0.51	0.85

Notes: 90% of the disability rates shown represent accidental disability.
40% of the accidental disabilities will die from the same cause as the disability.
90% of the death rates shown represent accidental death.

Withdrawal Rates:

Years of Service	Rate per year (%)		Group 4
	Groups 1 and 2	Years of Service	
0	15.0	0 – 10	1.5
1	12.0	11+	0.0
2	10.0		
3	9.0		
4	8.0		
5	7.6		
6	7.5		
7	6.7		
8	6.3		
9	5.9		
10	5.4		
11	5.0		
12	4.6		
13	4.1		

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

Years of Service	Groups 1 and 2
14	3.7
15	3.3
16 – 20	2.0
21 – 29	1.0
30+	0.0

Retirement Rates:

Age	Rate (%)		Group 4
	Male	Female	
50	1.0	1.5	2.0
51	1.0	1.5	2.0
52	1.0	2.0	2.0
53	1.0	2.5	5.0
54	2.0	2.5	7.5
55	2.0	5.5	15.0
56	2.5	6.5	10.0
57	2.5	6.5	10.0
58	5.0	6.5	10.0
59	6.5	6.5	15.0
60	12.0	5.0	20.0
61	20.0	13.0	20.0
62	30.0	15.0	25.0
63	25.0	12.5	25.0
64	22.0	18.0	30.0
65	40.0	15.0	100.0
66	25.0	20.0	100.0
67	25.0	20.0	100.0
68	30.0	25.0	100.0
69	30.0	20.0	100.0
70	100.0	100.0	100.0

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

Unknown Data for Participants:	Same as those exhibited by participants with similar known characteristics.
Age of Spouse:	Female (or male) spouses 3 years younger (or older) than their spouses.
Percent Married:	80%
Net Investment Return:	8.00%, previously, 7.50%
Interest on Employee Contributions:	3.50%
Salary Increases:	4.0%
Administrative Expenses:	\$175,000 for calendar 2006 (previously, \$150,000 for calendar 2004).
Total Service	Total creditable service reported in the data.
2005 Salary:	2005 salaries are equal to salaries provided in the data, except for actives missing salary, where salaries were calculated from annualized contributions divided by the contribution rates provided.
Actuarial Value of Assets:	The actuarial value of assets is equal to the market value of assets.
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method. Entry Age is the attained age of the participant minus total creditable service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary.

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

EXHIBIT VII
Summary of Plan Provisions

This exhibit summarizes the major provisions of Chapter 32 of the Laws of Massachusetts.

Plan Year: January 1 – December 31

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.) The annual amount of the retirement allowance is based on the participant’s final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the following table based on the age of the participant at retirement:

Age Last Birthday at Date of Retirement			
Percent	Group 1	Group 2	Group 4
2.5	65 or over	60 or over	55 or over
2.4	64	59	54
2.3	63	58	53
2.2	62	57	52
2.1	61	56	51
2.0	60	55	50
1.9	59	--	49
1.8	58	--	48
1.7	57	--	47
1.6	56	--	46
1.5	55	--	45

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

A participant's final three-year average salary is defined as the greater of the highest consecutive three-year average annual rate of regular compensation and the average annual rate of regular compensation received during the last three years of creditable service prior to retirement. The \$30,000 cap on salary used in a benefit determination for any employee hired after January 1, 1979 has been removed.

The maximum annual amount of the retirement allowance is 80 percent of the participant's final three-year average salary. Any participant who is a veteran also receives an additional yearly retirement allowance of fifteen dollars per year of creditable service, not exceeding three hundred dollars. The veteran allowance is paid in addition to the 80 percent maximum.

Employee Contributions

Employees hired before January 1, 1975 contribute 5 percent of their salary; employees hired after December 31, 1974 and before January 1, 1984 contribute 7 percent; employees hired after January 1, 1984 contribute 8 percent; employees hired after July 1, 1996 contribute 9 percent. In addition, employees hired after December 31, 1978 contribute an additional 2 percent of salary in excess of \$30,000.

Employees hired after 1983 who leave with less than five years of credited service receive no interest on their contributions and employees who leave with five but less than ten years receive one-half the rate of regular interest otherwise payable.

Retirement Benefits (Superannuation)

Participants of Group 1, 2 or 4 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Participants who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the system).

Ordinary Disability Benefits

A participant who is unable to perform his job due to a non-occupational disability will receive a retirement allowance if he has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the participant retired for superannuation at age 55, based on the

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the participant's most recent year's pay plus an annuity based on his own contributions.

Accidental Disability Benefit

For a job-connected disability the benefit is 72 percent of the participant's most recent annual pay plus an annuity based on his own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become participants after January 1, 1988.

Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of his death, a spouse's benefit will be paid the full amount the employee would have received under Option C. The surviving spouse of a participant who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the participant's most recent annual pay in addition to a refund of the participant's accumulated deductions, plus additional amounts for surviving children.

"Heart And Lung Law" And Cancer Presumption

Any case of hypertension or heart disease resulting in total or partial disability or death to a uniformed fireman or permanent participant of a police department is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. Any case of disease of the lungs or respiratory tract resulting in total disability or death to a uniformed fireman is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. There is an additional presumption for uniformed firemen that certain types of cancer are job-related if onset occurs while actively employed or within five years of retirement.

SECTION 4: Reporting Information for the Town of Wellesley Contributory Retirement System

Options

Participants may elect to receive a full retirement allowance payable for life under Option A. Under Option B a participant may elect to receive a lower monthly allowance in exchange for a guarantee that at his death any of his contributions not expended for annuity payments will be refunded to his beneficiary. Option C allows the participant to take a lesser retirement allowance in exchange for providing his survivor with two-thirds of the lesser amount. Option C pensioners who retire in 1988 or later will have their benefits converted from a reduced to a full retirement if the beneficiary predeceases the retiree.

Post-Retirement Benefits

The Board has adopted the provisions of Section 51 Chapter 127 of the Acts of 1999, which provide that the Retirement Board may approve an annual COLA in excess of the Consumer Price Index but not to exceed a 3% COLA on the first \$12,000 of a retirement allowance. Cost-of-living increases granted prior to July 1, 1998 are reimbursed by the Commonwealth and not reflected in this report.